January 1989 Monthly Survey

February 3, 1989

Surveys of Consumers

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Strong Rebound in Consumer Sentiment

Index Regains Fourth Quarter Losses

The Index of Consumer Sentiment rose sharply to 97.9 in the January 1989 survey from 91.9 in December 1988. The January increase reversed the entire decline recorded in the last quarter of 1988, moving the Index to just above the 97.3 recorded in September 1988. Overall, the January 1989 Index level was the highest recorded since mid 1986.

Throughout the past six years the Index has traced a sawtoothed path at very favorable levels. The recent increase signals not so much a resurgence in optimism as a continuation of that longstanding pattern.

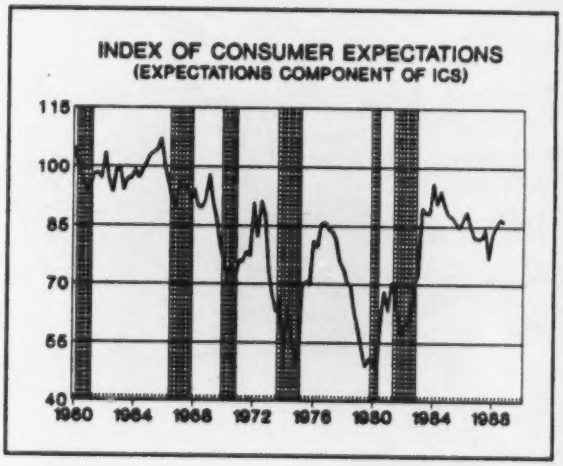
The January increase was concentrated in improved attitudes toward buying conditions for appliances, furniture, and home electronics. Smaller improvements were also recorded in assessments of personal finances as well as conditions in the general economy. Nonetheless, consumers continued to voice strong concerns about several aspects of the economic outlook. In particular, consumers are still very much concerned about rising interest rates.

Among families with incomes of $40,000 or more, the Index rose to 106.8 in January from 99.5 in December 1988.

The January increase was largest among residents of the West and among householders aged 55 or older; it was these same subgroups that recorded the largest losses in the December.

Leading Indicator

The U.S. Department of Commerce, Bureau of Economic Analysis, recently announced that the Leading Indicator Composite Index will be revised to include the expectations component of the Index of Consumer Sentiment. For our long time supporters, this recognition of the value of the Surveys of Consumers for understanding and forecasting changes in our consumer driven economy will come as no surprise. Perhaps the only surprise is that this recognition has been so long in coming.



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The expectations component of the Index of Consumer Sentiment, called the Index of Consumer Expectations, rose to 89.9 in the January survey, up from 85.5 in December, rising to just above the 89.5 recorded in September. In contrast, the component that reflects assessments of current economic conditions rose more substantially, to 110.3 in January from 102.0 in December. These results indicate that most of the January improvement was in evaluations of current economic conditions rather than in future prospects for the economy.

The inclusion of data from the Surveys of Consumers is a significant confirmation of its usefulness. Each series included in the composite Index of Leading Indicators is selected based on its performance on six characteristics: economic significance, statistical adequacy, consistency of timing at business cycle peaks and troughs, conformity to business expansions and contractions, smoothness, and prompt availability.

In addition to the expectations component of the Index of Consumer Sentiment, the composite Index of Leading Indicators includes 10 other statistical series: average weekly hours of production or nonsupervisory worker, manufacturing; average weekly initial claims for unemployment insurance, state programs; manufacturers' new orders in 1982 dollars, consumer goods and materials industries; index of stock prices, 500 common stocks; contracts and orders for plant and equipment in 1982 dollars; index of new private housing units authorized by local building permits; money supply, M2 in 1982 dollars; vendor performance, percent of companies receiving slower deliveries; change in sensitive materials prices; and change in manufacturers' unfilled orders in 1982 dollars, durable goods industries.

Personal Finances Improve

In the January 1989 survey, 44 percent of all families reported that their personal financial situation had improved, regaining the ground lost in the fourth quarter of 1988, but still remaining below the 49 percent recorded in September. Increases in family incomes were reported by a third of all families, largely unchanged from the December reading, although reports of declines in family incomes fell slightly (14, from 17 percent).

Consumers continue to view prospects for their own financial situation favorably. For the year ahead, 41 percent of all families expected their financial situation to improve. In comparison, just 10 percent of all families expected their financial situation to worsen during 1989. While these figures represent only a modest improvement over the December reading (39 versus 12 percent), there was likewise very little weakness was recorded in these personal financial prospects in late 1988. Overall, personal financial prospects were as favorable at the start of 1989 as one or two years earlier.

Prospects for Economy Viewed More Favorably

The majority of families in the January 1989 survey thought that the economic conditions in the country as a whole had improved during the past year. And the majority of families expected the performance of the national economy to remain largely unchanged during the year ahead. Overall, 56 percent of all families in the January 1989 survey thought that good times financially would prevail in the national economy during the year ahead. Although this was only marginally above the figures recorded in late 1988, the January reading was the highest proportion recorded since mid 1986.

When asked about longer term prospects for the national economy, families in the January 1989 survey were more optimistic that they have been during the past few years. Overall, 45 percent of all families expected good times financially in the economy as a whole during the next five years, the highest favorable proportion recorded since 1984.

Concerns About Economic Prospects Also Expressed

Unemployment. Underlying these favorable assessments of business conditions, half of all families in the January 1989 survey thought that the national unemployment rate would remain largely unchanged at its present decade low during the year ahead. Overall, this is a very positive outlook, and has maintained prospects for both the economy and personal finances at favorable levels. Nonetheless, on the margin, consumers unemployment expectations have gradually worsened in the closing months of 1988 and showed some further weakness in the January 1989 survey. Increases in the national unemployment rate were expected by 34 percent of all families in January, up from 28 percent in December, and the 1988 low of 22 percent recorded in October.

Inflation. In the January survey, consumers expected an inflation rate of 5.1% during 1989. This was largely unchanged from the December reading, but below the 5.5% level recorded from June to September. Nonetheless, the January 1989 reading was still above the year earlier expectation of a 4.4% rate of inflation for 1988--an expectation that exactly matched the actual change in the CPI during 1988.

interest rates. Interest rate expectations remained at very unfavorable levels in the January 1989 survey, although slightly below the all-time record unfavorable level recorded in December. Among all families in the January 1989 survey, 68 percent expected increases in interest rates during the year ahead, just below the 74 percent recorded in December. Just 7 percent of all families expected interest rates to decline during 1989.

Overall, interest rate expectations continue to be the most troublesome aspect of future economic prospects for consumers. Thus far their primary impact has been on attitudes towards buying conditions for homes and vehicles.

Buying Conditions

Household durables. The proportion of families holding favorable attitudes toward buying conditions for household appliances, furniture, and home electronics rose to 78 percent in the January 1989 survey from 70 percent one month earlier. The January reading is the highest recorded since mid 1988. The primary reason for this resurgence in favorable buying attitudes has been more favorable perceptions of market prices for these durable goods. Among all families in the January 1989 survey, 36 percent mentioned the availability of low and discounted prices, up from 32 percent in December. At the same time, complaints about high prices for household durables fell to 7 from 11 percent.

Homes. Favorable attitudes toward buying conditions for homes were held by 64 percent of all families in the January 1989 survey, largely unchanged from December, but well below the 73 percent recorded in mid 1988. Increasing mortgage interest rates have been the primary reason for the decline. References to the availability of low mortgage rates were made by 22 percent of all families in the January survey, although slightly above the 19 percent recorded in December, it was well below the 1988 peak of 47 percent recorded in February.

Because increases in mortgage rates have thus far been modest, there has been only a small rise in the number of families that view current mortgage rates as too high and a cause for the postponement of home purchases. And because mortgage interest rates are expected to rise even further, as many families cited the advantage of borrowing-in-advance of rising mortgage rates as favored postponement--16 percent.

Vehicles. The proportion of families holding favorable attitudes toward vehicle buying conditions was 62 percent in the January 1989 survey. This proportion has remained largely unchanged since last Spring--during the last eight months it has stayed in the narrow range of 60 to 62 percent. Although vehicle buying attitudes have remained

relatively favorable, they are substantially below the cyclical peak levels recorded in 1986. Like home buying attitudes, favorable vehicle buying conditions have diminished from the prior peaks due to rising interest rates on credit purchases. But unlike home buying conditions, the recently announced interest rate discounts offered by manufacturers will help to bolster vehicle sales.

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The January 1989 survey included 501 completed interviews conducted between January 3 and January 27, 1989.